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## **Estimating the Spending in S. 1415, the Tobacco Bill**

### **RPC Tabulates the Spending Provisions in Commerce-Reported Bill**

Although the Congressional Budget Office (CBO) soon is expected to produce an official estimate of the spending provisions contained in S. 1415, it is possible simply to tabulate some of the spending programs as written in the bill — in other words, not estimating but simply calculating the costs of all the programs actually listed in S. 1415. Despite this basic methodology, this is still not a simple exercise.

While the Senate Finance Committee today reported an amendment to S. 1415, which changes the spending picture, this paper looks at the bill as it was reported from the Commerce Committee two weeks ago (and for which we have bill language and a report). The Finance Committee's amendment is subject to a Senate vote.

This paper identifies 26 spending sources, including new major spending programs, and increases in existing ones, that are contained in the bill. In addition, S. 1415 uses a variety of funding mechanisms to deliver the money — including trust funds and block grants. Budgetary mechanisms, such as so-called "triggers," would guarantee that specific funding levels must be met. Finally, there are 12 programs for which costs are not specified (by providing for them with the formula "such sums as may be necessary") and at least two instances where existing programs (Medicaid and the Department of Veterans Affairs) may incur costs that are not provided for in this bill.

Because of the unspecified spending amounts in the bill, it is not possible to give more than a very conservative and partial calculation of the total spending that would result. What we have done to arrive at a total is simply taking the bill's provisions at their face value and leaving out the cost of those programs that are not specifically funded. Using this method of conservative calculation, the 12 out of the total 26 spending programs included in S. 1415 that can be counted have the following costs:

- Over the first five years, \$93 billion.
- Over the first ten years, \$185 billion.
- Over 25 years, \$414 billion.

## The Spending Programs

Below are the individual spending programs contained in S. 1415, their included funding level and duration (relevant bill section numbers and page numbers in parentheses). The manner in which funds are provided (authorization, appropriation, direct spending, etc.) is listed in bold. The Senate Budget Committee contributed details on many of these programs:

- National Smoking Cessation Program: (Sec. 221, p. 372) — Such sums as may be necessary (“SSAMBN”). **Authorization.**
- National Tobacco-Free Public Education Program: (Sec. 222, p. 377) — SSAMBN. **Authorization.**
- National Community Action Program: (Sec. 223, p. 378) — SSAMBN. **Authorization.**
- State Retail Licensing Program: (Sec. 224, p. 378) — block grant with unspecified cost. **Authorization.**
- FDA Funding: (Sec. 411, p. 413) — \$300 million annually. **Direct Spending.**
- Child Care & Early Childhood Development: (Sec. 412, p. 413) — up to \$4 billion per year. **Authorization.**
- Indian Tribe Enforcement Grants: (Sec. 603, p. 420) — Grant with unspecified cost. **Permits the awards of grants.**
- Indian Tribe Public Health Grants: (Sec. 603, p. 427) — Grant with unspecified cost. **Permits the awards of grants.**
- Institute of Medicine Study: (Sec. 2801, p. 587) — \$750,000. **Authorization.**
- CDC Research: (Sec. 2803, p. 591) — \$450 million through the first four fiscal years, \$505 million for fiscal years four and five; \$405 million for fiscal years six and seven; \$360 million for fiscal years eight and nine; and \$305 million for all following years. This funding contains a “trigger” mechanism insuring specified funding levels (see description below). **Authorization.**
- NIH Research: (Sec. 2804, p. 593) — \$2.5 billion annually from FY99 through 2008. **Authorization.**
- Prevention of Tobacco Smuggling: (Sec. 1141, p. 616) — SSAMBN. **Authorization.**
- Counter-Advertising Programs: (Sec. 1172, p. 616) — SSAMBN. **Authorization.**
- Community & Migrant Health Centers Prevention Activities: (Sec. 1173, p. 632) — \$300

million annually for first ten years. **Authorization.**

- Compensation of Vending Machine Owners: (Sec. 1191, p. 634) — SSAMBN. **Authorization.**
- State Direct Distributions: (Sec. 402, p. 399) — \$196 billion over 25 years. **Direct Spending.**
- Minimum 15-Percent Mandatory Disbursement: (Sec. 401(d), p. 398) — After subtracting the \$196 billion distribution to the states described above, “not less than 15 percent of the amounts shall be expended, without further appropriation, notwithstanding any other provision of this Act, from the trust fund for each fiscal year, in the aggregate for activities under this Act related to — (1) the prevention of smoking; (2) education; (3) State, local, and private control of tobacco product use; and (4) smoking cessation.” How much this will amount to is unclear because of the overlap with other delineated expenditures in S. 1415. **Direct Spending.**
- State Compliance Awards: (Sec. 211, p. 361) — SSAMBN. **Authorization.**
- American Center on Global Health & Tobacco: (Sec. 1132, p. 657) — Up to \$150 million annually. **Authorization.**
- Foreign Aid related to tobacco: (Sec. 1131, p. 601) — SSAMBN. **Authorization.**
- Tobacco/Asbestos benefit payments: (Sec. 1205, p. 658) — \$21 billion through 2014. As drafted by Commerce this appears to be **Direct Spending.**
- Tobacco Worker Transition Program: (Sec. 1031, p. 491) — \$25 million annually through 2008. **Capped entitlement.**
- Farmer Opportunity Grants: (Sec. 1032, Committee Report, p. 54) — \$42.5 million in academic years 1999-2004; \$50 million for 2004-2009; \$57.5 million for 2009-2014; \$65 million for 2014-2019; and \$72.5 million 2019-2024. **Capped entitlement.**
- Lost Tobacco Quota Payments: (Sec. 1021, p. 495) — not to exceed \$1.65 billion. **Capped entitlement.**
- Payments to USDA for administration: (Sec. 1022, p. 525) — SSAMBN. **Entitlement.**
- Spending funded outside Tobacco Bill: Veterans programs and administrative costs (Title XIII, p. 664) and Medicaid coverage of smoking cessation (Sec. 1106(c), p. 598). Both of these programs would result in increased costs but will be funded through General Fund and not money contained in S. 1415.

## Spending Mechanisms: Trust Funds and Triggers

S.1415 contains eight major new off-budget trust funds or accounts according to the Senate Budget Committee. It also contains four spending mechanisms that are questionable at best from a budget policy perspective: (1) Off-budget status; (2) trust funds; (3) so-called spending "triggers"; and (4) direct spending. All four, to varying degrees, undermine the oversight and accountability that budgets in general, and Congress in particular, are supposed to provide. Because of this, *how* the money provided in S. 1415 is spent is at least as important as *how much* money is spent.

- **Off-budget status:** Currently, only two federal programs are accorded off-budget status: Social Security and the Postal Service. By law, the financial transactions of these entities are not included in the official federal budget totals. Of course, they remain federal programs despite their insulated status and in real terms their activities remain a part — in fact, a sizeable part — of the cost of government on the economy. The cost of government is one of the most important variables in a nation's economic performance. Obscuring it does not change it. However, it does serve to obscure to the public at large the actual choices that have to be made. It also serves to make Congressional control of these programs and the overall budget priorities that much more difficult.

For these major reasons, such off-budget status should be resisted. As the Senate Budget Committee points out, there are 100 other trust funds in the federal budget. Granting off-budget status to S. 1415's new trust funds creates a bad precedent for these as well. Carrying the illogic of off-budget status to its illogical conclusion, Congress will retain control of only a dwindling proportion of the federal budget.

- **Trust funds:** While the status of a trust fund is not as formally sequestered as actual off-budget status, trust funds serve much the same purpose: to reduce control over certain types of spending. Recall that the prioritizing of revenue and spending is the very purpose of a budget, and so to pre-prioritize revenue and spending apart from the rest of the budget is, too, egregious.
- **Spending Triggers:** Section 2803, page 592 reads: "No expenditures shall be made under this section during any fiscal year in which the annual amount appropriated for the Centers for Disease Control and Prevention is less than the amount so appropriated for the prior fiscal year." Similar language is included on page 597 for NIH funding. These devices explicitly remove control over spending in these areas — again taking away from Congress what its budget process is intended to do.
- **Direct Spending:** Direct spending is the auto-pilot of federal budgeting. In contrast to the normal fiscal procedure of authorization and appropriation — which requires regular oversight on both sides of the process — direct spending once enacted continues indefinitely. It should not be surprising that it is precisely this type of spending that caused the budget deficits that have existed since 1969 and that will present unsustainable levels of spending when the baby-boom generation retires. Direct spending simply has been the major budget problem of the last generation and will be the insupportable problem in the

future. Adding more to that pot is dubious budget policy at best.

In short, controlling federal spending has been the greatest challenge that Congress has faced — if not overall, certainly in budgeting — during the last generation. Oversight and the control of spending is the constitutional responsibility of Congress. The four spending mechanisms contained in S. 1415 could make that job more difficult.

### **Caveats: The Missing Pieces**

This analysis is, due to the nature of the underlying bill and its lack of specificity, incomplete. The Commerce Committee itself recognizes this and intends to address it in a manager's amendment. Because of the lack of specificity, at least 12 major programs named in the bill have no cost attached to them. Because of the Finance Committee's amendment, and the forthcoming Commerce Committee manager's amendment, details of the bill will change that will presumably affect the spending provisions. Nonetheless, it is still important to get an understanding of the spending implications — just as was the case with the revenue implications — raised by S. 1415.

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# Tobacco Bill (S.1415) Major Spending Programs

(in billions of dollars)

YEAR	1999	2000	2001	2002	2003	TOTAL: 25-year costs	Total: 10-year	Total: 5-year
<b>PROGRAM</b>								
National Smoking Cessation Program						Such sums as may be necessary	SSAMBN	SSAMBN
National Tobacco Free Public Education Program						Such sums as may be necessary	SSAMBN	SSAMBN
National Community Action Program						Such sums as may be necessary	SSAMBN	SSAMBN
State Retail Licensing Program						Block Grant: Unspecified Cost	Unclear	Unclear
FDA Funding	0.3	0.3	0.3	0.3	0.3	7.8	3	1.5
Child Care & Early Childhood Development	4	4	4	4	4	104	40	20
Indian Tribe Enforcement Grants						Grant: Unspecified Cost	Unclear	Unclear
Indian Tribe Public Health Grants						Grant: Unspecified Cost	Unclear	Unclear
Institute of Medicine Study	0.0008					0.00075	0.00075	0.00075
CDC Research	0.45	0.45	0.45	0.505	0.505	9.075	4.195	2.36
NIH Research	2.5	2.5	2.5	2.5	2.5	25	25	12.5
Prevention of Tobacco Smuggling						Such sums as may be necessary	SSAMBN	SSAMBN
Counter-Advertising Programs						Such sums as may be necessary	SSAMBN	SSAMBN
Community & Migrant Health Centers Prevention Activities	0.3	0.3	0.3	0.3	0.3	3	3	1.5
Compensation: Vending Machine Owners						Such sums as may be necessary	SSAMBN	SSAMBN
State Direct Distributions	7.84	7.84	7.84	7.84	7.84	196	78.4	39.2
State Compliance Awards						Such sums as may be necessary	SSAMBN	SSAMBN
American Center on Global Health & Tobacco	0.15	0.15	0.15	0.15	0.15	3.9	1.5	0.75
Foreign Aid related to tobacco						Such sums as may be necessary	SSAMBN	SSAMBN
Tobacco/Asbestos benefit payments	1.3125	1.3125	1.3125	1.3125	1.3125	21	13.125	6.5625
Tobacco Worker Transition Program	0.025	0.025	0.025	0.025	0.025	0.25	0.25	0.125
Farmer Opportunity Grants	0.0425	0.0425	0.0425	0.0425	0.0425	1.48	0.455	0.2125
Lost Tobacco Quota Payments	1.65	1.65	1.65	1.65	1.65	42.9	16.5	8.25
Payments to USDA for administration						Such sums as may be necessary	SSAMBN	SSAMBN
<b>SPENDING FUNDED OUTSIDE THE TOBACCO BILL</b>						414.40575	185.4258	92.9608
Veterans programs and administrative costs						Federal costs unclear	Unclear	Unclear
Medicaid coverage of smoking cessation						Federal costs unclear	Unclear	Unclear

Note: Lump payments were distributed on a pro rata basis; This chart reflects the bill as reported by the Commerce Committee on May 1.